

THE VENALE CORPORATION
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION FOR THE
TEN MONTHS ENDED
OCTOBER 31, 2016

THE VENALE CORPORATION

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THE VENALE CORPORATION
DIRECTORY
October 31, 2016

BOARD MEMBERS

Jim Ferrell, Chairman
Aletza Boucher, Secretary
Terry Wimberley, Director
Alex Smith, Director
Scott Dahlstrom, Director
Nancy Nanney, Director
Regie Castellaw, Director
John Fortune, Director
Mike Allmand, Director

MANAGEMENT TEAM

Jim Oakley, Vice President

COUNSEL

Teresa Cobb
Jackson Energy Authority

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

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Independent Auditor's Report

To the Board of Directors
The Venale Corporation
Jackson, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of The Venale Corporation (the Corporation) as of and for the ten months ended October 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of October 31, 2016, and the respective

changes in financial position and cash flows thereof for the ten months then ended in accordance with accounting principles generally accepted in the United States of America.

Cease of Operations

As discussed in Note 3 to the financial statements, the Corporation plans to distribute the remaining assets to the owners at the close of this period. Management's plans regarding those matters also are described in Note 3. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2016 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
December 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The Venale Corporation (the Corporation), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the ten months ended October 31, 2016. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

The name and assets of the Utilicor Corporation were sold to Border States in July 2013. The name was changed to the Venale Corporation at that time. The Corporation held the remaining inventory that was not sold with the intention of selling it and ceasing operations once the inventory is sold and the escrow has been closed out. Note 3 on page 12 of this report describes the different aspects of the sales agreement. The following are key financial highlights of the Corporation at the current year end.

- Total assets and liabilities at year-end were \$18 thousand, respectively and were represented by cash and dividends payable.
- Net position decreased \$31 thousand during the current period due mainly to the \$18 thousand dividend payable to the owners.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the Corporation's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Corporation's strategic plan, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information is made up of three sections: 1) the introductory section, 2) the financial section, and 3) the internal control and compliance section. The introductory section includes the Corporation's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The internal control and compliance section includes the independent auditor's report on internal control and compliance and findings. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the Corporation, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the Corporation, using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The *Statement of Net Position* presents the financial position of the Corporation on a full accrual historical cost basis. The statement of net position includes all of the Corporation's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Corporation's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Corporation, and assessing the liquidity and financial flexibility of the Corporation.

The *Statement of Revenues, Expenses and Changes in Net Position* presents the results of the business activities over the course of the period and information as to how the net position changed

MANAGEMENT'S DISCUSSION AND ANALYSIS

during the period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Corporation's operations and can be used to determine whether the Corporation has successfully recovered all of its costs. This statement also measures the Corporation's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Corporation's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL ANALYSIS

The analysis below focuses on the Corporation's net position (Table 1) and changes in net position (Table 2) during the ten months ended October 31, 2016.

Table 1

CONDENSED STATEMENT OF NET POSITION

	Oct. 31, 2016
Current and other assets	\$ 18,248
Total assets	18,248
Other liabilities	18,248
Total liabilities	18,248
Unrestricted	-
Net position	\$ -

Current and other assets decreased by approximately \$13 thousand, which was due mainly to the professional fees paid in the current year. The remaining current assets of the Corporation are made up of cash which will be distributed to the owners soon after the end of the period.

Changes in the Corporation's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Position for the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Oct. 31, 2016
Non-operating revenues	\$ 4,023
Total revenues	4,023
Other operating expenses	16,876
Total expenses	16,876
Change in net position	(12,853)
Dividends declared	(18,248)
Beginning net position	31,101
Ending net position	\$ -

The Corporation declared a \$18 thousand dividend to its owners. The \$13 thousand change in net position is mainly due to professional fees paid in the current year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the ten months ended October 31, 2016 the Corporation had \$0 in assets or accumulated depreciation due to scrapping of the remainder of capital assets in the current period.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Chief Financial Officer, 250 North Highland Ave, Jackson, TN 38305.

THE VENALE CORPORATION
STATEMENTS OF NET POSITION
October 31, 2016

Assets

Current assets:

Cash in bank	\$ 18,248
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Total assets	<u>18,248</u>
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Liabilities

Current liabilities:

Dividends payable	<u>18,248</u>
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Total current liabilities	<u>18,248</u>
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Total liabilities	<u>18,248</u>
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Net Position

Unrestricted	<u>-</u>
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Total net position	<u><u>\$ -</u></u>
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The accompanying notes are an integral part of the financial statements.

THE VENALE CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN
NET POSITION
For the Ten Months Ended October 31, 2016

Operating expenses:	
Accounting and legal	\$ 15,500
Miscellaneous	1,286
Taxes	90
Total operating expenses	<u>16,876</u>
Operating income (loss)	<u>(16,876)</u>
Nonoperating revenues (expenses)	
Gain (loss) on sale of assets	4,001
Interest income	22
Total nonoperating revenues (expenses)	<u>4,023</u>
Change in net position	<u>(12,853)</u>
Dividends declared	(18,248)
Total net position - beginning	<u>31,101</u>
Total net position - ending	<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements.

THE VENALE CORPORATION
STATEMENT OF CASH FLOWS
For the Ten Months Ended October 31, 2016

Cash flows from operating activities:

Payments to suppliers	\$ (2,128)
Net cash provided (used) by operating activities	<u>(2,128)</u>

Cash flows from capital and related financing activities:

Proceeds from sale of property and equipment	4,001
Dividends paid	<u>(18,248)</u>
Net cash provided (used) by financing activities	<u>(14,247)</u>

Cash flows from investing activities:

Interest income	<u>22</u>
Net cash provided (used) by investing activities	<u>22</u>

Net increase (decrease) in cash **(16,353)**

Cash at beginning of period 34,601

Cash at end of period \$ 18,248

Cash flows from operating activities:

Net operating income (loss)	\$ (16,876)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Increase (decrease) in dividends payable	18,248
Increase (decrease) in accrued expenses	<u>(3,500)</u>
Net cash provided (used) by operating activities	<u>\$ (2,128)</u>

The accompanying notes are an integral part of the financial statements.

THE VENALE CORPORATION
NOTES TO FINANCIAL STATEMENTS
October 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity and Nature of Activities

The Corporation operated as a limited liability company under the name Tennergy Partners, LLC, organized on May 31, 2002, and existing under the laws of the State of Tennessee until December 31, 2007. As of January 1, 2008, the Corporation was reorganized as an Energy Acquisition Corporation operating as The Utilicor Corporation.

The Corporation is wholly owned by public agencies in the State of Tennessee. The Corporation was established when the assets and liabilities of Power and Telephone Supply Company – Power Division were purchased and operations of this business were started under the name Utilicor. The Corporation also purchased Utility, Equipment and Testing, Inc., at this time and began operations of this business under the name UPS&S which was later folded into Utilicor. The Corporation's formation is authorized under the Interlocal Cooperation Act for the purpose of enabling the public agencies that are members of the Corporation to cooperate among themselves and with other public agencies on a basis of mutual advantage for the joint and cooperative purchasing of utility materials, tools, supplies, accessories, related equipment, and services for the construction, operation, and maintenance of any and all utility systems authorized to be operated by any such public agencies, to conduct such other business incidental thereto as the board may decide and to carry on other activities necessary or useful therewith.

In July 2013, the Utilicor Corporation's name and major assets were sold to Border States Electric Supply of Tennessee, Inc. (See Note 5). As part of the sales agreement, the Utilicor Corporation's name was changed to the Venale Corporation for ongoing operations.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. Proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The Corporation's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Corporation are charges for sales to customers for sales and service. Operating expenses for the Corporation include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

THE VENALE CORPORATION
NOTES TO FINANCIAL STATEMENTS
October 31, 2016

C. Assets, Liabilities, and Equity

Deposits and investments

The Corporation's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value. Any change in the value of investments recorded at fair value is included in investment income. Fair value is based on quoted market prices at fiscal year end.

Capital assets

Capital assets, which include property, plant, equipment, and construction in progress, are defined by the Corporation as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

The equipment of the Corporation is depreciated using the straight line method over 3 -20 years depending on the type of equipment.

Net position and net position flow assumption

In the statement of net position, equity is classified as net position and displayed in the following three components, if applicable:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding debt attributable to the acquisition, construction, or improvement of those assets. (this is reported as investment in capital assets, when there is no related debt.)
- Restricted – Consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities.
- Unrestricted – All other net position that do not meet the description of the above categories.

Sometimes the Corporation will fund outlays for a particular purpose from both restricted (e.g., restricted bond) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Corporation's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Geographic operations

The Corporation's operations are both inside and outside the State of Tennessee, and the Corporation derives its revenue primarily from user charges to customers both inside and outside the State of Tennessee.

THE VENALE CORPORATION
NOTES TO FINANCIAL STATEMENTS
October 31, 2016

NOTE 2 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Interest rate risk

As a means of limiting its exposure to fair value losses arising from interest rate risks, the Corporation generally limits its investments to those with maturities of one year or less. The investments that the Corporation holds at year end have guaranteed interest rates and therefore are not susceptible to interest rate risk. The Corporation's investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial credit risk

The Corporation's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Corporation's agent in the Corporation's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Corporation to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and guaranteed investment contracts providing for a specified rate of return over a specified time period with entities rated in one (1) of the two (2) highest rating categories of a nationally recognized rating agency. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of October 31, 2016, the Corporation's bank balance is covered by FDIC.

B. Capital Assets

Capital asset activity during the period was as follows:

Description	Balance at December 31, 2015	Additions	Disposals	Balance at October 31, 2016
Capital assets, being depreciated				
Equipment	\$ 135,956	\$ -	\$ 135,956	\$ -
Total capital assets, being depreciated	<u>135,956</u>	<u>-</u>	<u>135,956</u>	<u>-</u>
Less accumulated depreciation for:				
Equipment	<u>135,956</u>	<u>-</u>	<u>135,956</u>	<u>-</u>
Total accumulated depreciation	<u>135,956</u>	<u>-</u>	<u>135,956</u>	<u>-</u>
Total capital assets, being depreciated, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense amounted to \$0 for the period ended October 31, 2016.

THE VENALE CORPORATION
NOTES TO FINANCIAL STATEMENTS
October 31, 2016

NOTE 3 – SALE OF THE MAJOR ASSETS, NAME OF THE UTILICOR CORPORATION, AND THE CLOSING OF THE CORPORATION

On July 29, 2013, an Asset Purchase Agreement was signed between UtiliCor and Border States Electric Supply of Tennessee, Inc, (BSE) for UtiliCor to sell its distribution related assets and name to Border States. The purchase price consisted of the following:

1. BSE purchased all the capital assets of UtiliCor except for those assets that need to be retained for continued operation until dissolution. The amount allocated to the capital assets purchase was \$96,451.
2. BSE purchased all the trade accounts receivable of UtiliCor as of the closing date. Any of these accounts receivable not collected by BSE after 150 days will return to UtiliCor. That amount will reduce the purchase prices and be deducted from the escrow account. The amount allocated to the trade accounts receivable was \$2,096,761. There were no adjustments made at the end of the 150 days.
3. BSE paid \$250,000 for goodwill and the rights to the UtiliCor name. The Corporation will operate going forward as Venale Corporation.
4. BSE purchased all inventory associated with UtiliCor's distribution business that is considered current and saleable. UtiliCor's distribution business was defined as selling and distributing utility related electrical supplies, products and equipment in the States of Tennessee, Alabama, Arkansas, Kentucky, Mississippi, and Virginia, primarily to electric cooperatives and municipalities. The definition of current and saleable inventory was any item which had a sale in the last 12 months. The amount allocated to the inventory purchased from the Utilicor Corporation was \$2,232,870.

The total purchase price paid at closing was \$4,682,363. This was distributed through an amount put into escrow in the amount of \$1,543,107, an amount of \$1,181,672 which paid off the Corporation's line of credit, and an amount of \$1,955,084 that was wired into the bank account of the corporation that went toward the payoff of any outstanding payables that the Corporation had as of the sale date. The Asset Purchase Agreement and related required forms were submitted in May 2013 to the Attorney General's office for its approval and they were approved.

In the fiscal year 2014, \$842,683 was released from the escrow account to the Corporation and was subsequently declared as a dividend to the owners of the Corporation. The remaining funds in the escrow account were released to the Corporation in January 2015 in the amount of \$700,468.

The Corporation has ceased operations at the end of the ten months ended October 31, 2016, with the dividends payable to owners as the only remaining transaction, which will occur prior to December 31, 2016.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
The Venale Corporation
Jackson, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Venale Corporation (the Corporation) as of and for the ten months ended October 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements, and have issued our report thereon dated December 31, 2016. Our report includes communication regarding conditions that raise substantial doubt about the Corporation's ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged in governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying *Schedule of Current Year Findings* as 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Venale's Response to Finding

Venale's response to the finding identified in our audit is described in the accompanying schedule of current year findings. Venale's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
December 31, 2016

THE VENALE CORPORATION
SCHEDULE OF CURRENT YEAR FINDINGS
For the Ten Months Ended October 31, 2016

CURRENT YEAR FINDINGS:

2016-001 Segregation of Duties (Significant Deficiency)

Condition: The Venale Corporation does not have a complete segregation of duties for accounting functions.

Criteria: Proper segregation of duties involves separating the functions of recording transactions, posting to the general ledger, and reconciling general ledger accounts.

Effect: When accounting functions are not adequately segregated, the risk of errors and irregularities occurring and not being detected in a timely manner increases.

Recommendation: Controls should be used to ensure some separation of the cash, record keeping, and reconciliation procedures for all areas of the internal control system.

Response: The Corporation has separated accounting functions to the extent that it can be done with the limited staff available.

THE VENALE CORPORATION
SCHEDULE OF PRIOR YEAR FINDINGS
For the Ten Months Ended October 31, 2016

Financial Statement Findings

Finding Number	Finding Title	Status
2015-001	Segregation of Duties (original finding #2013-001)	Repeated